

Internal Revenue Service

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Department of the Treasury
Washington, DC 20224

Third Party Communication: None
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Date:
March 25, 2013

Legend

Corporation =

Business =

Continuing Shareholders =

Minority Shareholder =

State =

a =

b =

Dear :

This letter responds to your October 22, 2009 request for rulings as to the Federal income tax consequences of a proposed transaction. The information submitted for consideration is summarized below.

Corporation is a State corporation engaged in Business. Corporation is an S corporation.

The Continuing Shareholders own a percent of the total shares of Corporation. The Minority Shareholder owns the remaining b percent of the total shares of Corporation stock.

In order to increase the operational flexibility of Corporation, and to reduce costs and eliminate administrative burdens associated with Minority Shareholder, the Continuing Shareholders and Corporation propose the following transaction:

- (i) The Continuing Shareholders will form a new corporation ("Newco") solely for the purpose of effecting this transaction.
- (ii) Each of the Continuing Shareholders will contribute all of their shares of Corporation to Newco in exchange for shares of Newco in equal proportions (the "Contribution").
- (iii) Newco will merge into Corporation with Corporation surviving (the "Merger"). In connection with the Merger, the Minority Shareholder will receive a specified cash amount per share in exchange for the Minority Shareholder's Corporation stock, and such stock will be cancelled. If the Minority Shareholder objects to the proposed transaction, the Minority Shareholder will have the right to exercise dissenter's rights and receive the fair value of Minority Shareholder's shares. Also in connection with the Merger, the Newco shares owned by the Continuing Shareholders will be cancelled and each will receive shares of Corporation stock in the same proportions as the shares they held in Newco in exchange for their previously held Newco stock (the "Share Exchange").

After the completion of the proposed transaction, each of the Continuing Shareholders will hold a number of shares in Corporation equal to the proportions that those Continuing Shareholders held immediately before the proposed transaction.

Based solely on the information submitted, we rule as follows:

- (1) The creation of Newco followed by the merger of Newco into Corporation will be disregarded for Federal income tax purposes. Rev. Rul. 78-250, 1978-1 C.B. 83.
- (2) The proposed transaction will be treated as if the Continuing Shareholders never transferred their Corporation stock for Federal income tax purposes, and thus the Continuing Shareholders will not recognize any gain or loss from the proposed transaction. Rev. Rul. 78-250, 1978-1 C.B. 83.

(3) The transitory ownership of Corporation by Newco will not cause the termination of Corporation's S corporation election under § 1362(d)(2).

(4) The cash received by the Minority Shareholder in the proposed transaction will be treated as a distribution in redemption of the Minority Shareholder's stock, subject to the provisions and limitations of § 302. Rev. Rul. 78-250, 1978-1 C.B. 83.

We express or imply no opinion about the tax treatment of the proposed transaction under other provisions of the Code and regulations or about the tax treatment of any conditions existing at the time of, or effects resulting from, the transaction that are not specifically covered by the above rulings.

This ruling is directed only to the taxpayer who requested it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

A copy of this letter must be attached to the taxpayer's federal income tax return for the taxable year in which the transaction is consummated. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of this letter.

Sincerely,

David R. Haglund
Chief, Branch 1
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)

Copy of this letter

Copy for § 6110 purposes

cc: